

May 11, 2011

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Board of Supervisors**

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Mitchell H. Katz, M.D.
Director

John F. Schunhoff, Ph.D.
Chief Deputy Director

TO: Each Supervisor

FROM: *for* Mitchell H. Katz, M.D. 
Director

SUBJECT: **DEFICIT REDUCTION PLAN FOR FISCAL YEAR 2010-11**

As requested by Mayor Antonovich at the April 19, 2011 Board of Supervisors' meeting, this is to provide the Department of Health Services' (DHS) Deficit Reduction Plan for Fiscal Year (FY) 2010-11.

Based on the latest estimates, the year-end shortfall for FY 2010-11 is \$70.8 million. The Department has identified several deficit reduction ideas which could close most of the FY 2010-11 shortfall, depending on the timing of the necessary State and federal actions, discussed further below.

One of the deficit reduction ideas is to reallocate a portion of the Waiver funding allocated to the Health Care Coverage Initiative (HCCI - provides coverage to individuals with incomes of 134-200% of the Federal Poverty Level), which remains unused, to the Safety Net Care Pool (SNCP). Reallocation of these funds to the SNCP is allowed under the Waiver but requires the State to seek approval from the federal Centers for Medicare and Medicaid Services (CMS). The State has indicated that it plans to forward the request to CMS shortly. The Department estimates the value of the reallocation at approximately \$26.0 million.

Another solution is to obtain approval of a Mental Health State Plan Amendment (SPA), valued at approximately \$25.0 million for the period January 2009 through June 2011, which would allow claiming of Certified Public Expenditures (CPEs) for costs above the Schedule of Maximum Allowances, the normal rate paid by the State for mental health services. The State submitted the SPA in January 2009 but there were some issues that had to be resolved. Those issues have now been resolved and the State is currently in discussions with CMS regarding the January 2009 SPA to allow the use of CPEs to claim costs.

As noted above, the most significant solutions require State action and CMS approval. The Department has indicated to the State our intense interest in seeing the SNCP allocation and Mental Health SPA resolved favorably as soon as possible, however, it is not clear at this time whether or not CMS approval will be obtained before the FY

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2010-11 final closing of the books in early August 2011. The Department is working closely with the Chief Executive Office (CEO) and the Auditor-Controller on the status of these efforts.

The Department also proposes using one-time unspent funds of \$7.0 million residing in the County's Designation for Health Services Future Financing Requirements to help cover the deficit. If the solutions noted in the chart below are fully realized by the time of final closing of the books in early August 2011, there will still be a remaining shortfall of \$12.8 million. This estimate is based on the FY 2010-11 estimated actual expenditures as of the February 2011 forecast.

| POTENTIAL SOLUTIONS FOR DEFICIT REDUCTION FISCAL YEAR 2010-11 (\$ in millions) | | |
|--|--------|---------------|
| Estimated Year-End Shortfall | | \$70.8 |
| CMS approval of reallocation of unused HCCI to SNCP | \$26.0 | |
| CMS approval of Mental Health SPA | \$25.0 | |
| Onetime Health Services Designation | \$ 7.0 | |
| Subtotal | | \$58.0 |
| REMAINING SHORTFALL | | \$12.8 |

The Department will not have the actual expenditures for the last quarter of FY 2010-11 until the end of July 2011. At that time, the Department will have a much better estimate of whether it will end the year with a deficit for FY 2010-11. Once the last quarter estimates are finalized, the Department will work with the CEO to identify options for closing the gap, if any, as part of the annual year-end closing process.

Please let me know if you have any questions or need additional information.

MHK:ANW:co
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c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors
Auditor-Controller